

04973

FALLBROOK UNION  
ELEMENTARY SCHOOL DISTRICT  
COUNTY OF SAN DIEGO  
FALLBROOK, CALIFORNIA  
AUDIT REPORT  
June 30, 2008

## *Required Supplementary Information*

---

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
AUDIT REPORT  
June 30, 2008

---

CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	18
Statement of Fund Net Assets – Proprietary Fund .....	19
Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds.....	20
Statement of Cash Flows – Proprietary Fund .....	21
Statement of Net Assets – Fiduciary Funds .....	22
Statement of Changes in Fiduciary Net Assets.....	23
Notes to the Basic Financial Statements .....	24

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
AUDIT REPORT  
June 30, 2008

---

CONTENTS  
(Continued)

	<u>Page</u>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – General Fund .....	46
Budgetary Comparison Schedule – Special Reserve Fund .....	47
<b>SUPPLEMENTARY INFORMATION</b>	
Local Education Agency Organization Structure .....	48
Schedule of Average Daily Attendance .....	49
Schedule of Instructional Time .....	50
Schedule of Financial Trends and Analysis .....	51
Schedule of Expenditures of Federal Awards .....	52
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements .....	53
Schedule of Excess Sick Leave .....	54
Note to the Supplementary Information .....	55
<b>OTHER INDEPENDENT AUDITORS' REPORTS</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	56
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 .....	58
Auditors' Report on State Compliance .....	60
<b>FINDINGS AND QUESTIONED COSTS SECTION</b>	
Schedule of Audit Findings and Questioned Costs .....	62
Summary Schedule of Prior Audit Findings .....	66





A Professional  
Accountancy Corporation

Board of Trustees  
Fallbrook Union Elementary School District  
Fallbrook, California

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fallbrook Union Elementary School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fallbrook Union Elementary School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE  
PH: 951.698.8783  
FAX: 951.699.1064  
25090 Jefferson Avenue  
Murrieta, CA 92562

SAN DIEGO OFFICE  
PH: 619.270.8222  
FAX: 619.260.9085  
2727 Camino Del Rio S.  
Suite 219  
San Diego, CA 92108

### MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE  
[www.nnwcpa.com](http://www.nnwcpa.com)

Licensed by the California  
Board of Accountancy

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fallbrook Union Elementary School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008 on our consideration of the Fallbrook Union Elementary School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and budgetary comparison information on pages 46 and 47 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Fallbrook Union Elementary School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Nigro Nigro & White, PC".

Murrieta, California  
October 28, 2008

## *Management's Discussion and Analysis*

---

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2008

---

This discussion and analysis of Fallbrook Union Elementary School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$0.5 million over the year.
- Overall revenues were \$56.0 million, \$0.5 million less than expenses.
- The total cost of basic programs was \$56.5 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$44.1 million.
- The District decreased its outstanding long-term debt approximately \$0.9 million, or 2.5 percent.
- Average daily attendance (ADA) decreased by 136, or 2.5%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

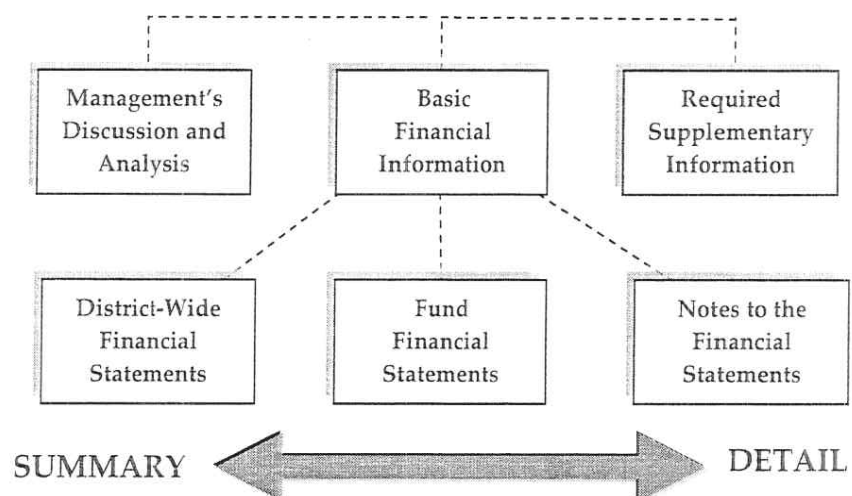
- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
  - Short and long-term financial information about the activities of the District that operate like businesses (self-insurance funds) are provided in the *proprietary funds statements*.
  - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2008

---

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Fallbrook Union Elementary School District's Annual Financial Report



**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

---

Figure A-2 summarizes the major features of the District's financials statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2. Major Features of the District-Wide and Fund Financial Statements**

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the district that operate like a business, such as self-insurance funds	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Assets</li> <li>• Statement of Changes in Fiduciary Net Assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

---

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**District-wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2008

---

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured program for dental insurance claims.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.



**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

---

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Assets.** The District's combined net assets were lower on June 30, 2008, than they were the year before – decreasing over 1% to \$55.5 million (See Table A-1).

**Table A-1**

	Governmental Activities		Variance
	(In millions)		Increase
	2008	2007	(Decrease)
Current and other assets	\$ 18.0	\$ 22.1	\$ (4.1)
Capital assets	73.0	70.4	2.6
Total assets	91.0	92.5	(1.5)
Other liabilities	2.3	2.4	(0.1)
Long-term debt outstanding	33.1	34.0	(0.9)
Total liabilities	35.4	36.4	(1.0)
Net assets			
Invested in capital assets, net of related debt	40.0	36.8	3.2
Restricted	3.8	8.6	(4.8)
Unrestricted	11.7	10.7	1.0
<b>Total net assets</b>	<b>\$ 55.5</b>	<b>\$ 56.1</b>	<b>\$ (0.6)</b>

**Changes in net assets, governmental activities.** The District's total revenues were \$56.0 million (See Table A-2). The decrease is due primarily to the District receiving less program revenues from operating grants and contributions.

The total cost of all programs and services was \$56.5 million. The District's expenses are predominantly related to educating and caring for students, 77%. The purely administrative activities of the District accounted for just 6% of total costs. The total costs increased by 10.5%, primarily due to increases in instructional expenses.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

---

Table A-2

	Governmental Activities (In millions)		Variance
	2008	2007	Increase (Decrease)
Total Revenues	\$ 56.0	\$ 58.3	\$ (2.3)
Total Expenses	56.5	54.0	2.5
Increase (decrease) in net assets	\$ (0.5)	\$ 4.3	\$ (4.8)

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$15.5 million, which is below last year's ending fund balance of \$19.5 million. The main reason is that the District's County Schools Facilities Fund had about \$3.0 million less revenues than expenditures in 2008 due to spending of money on modernization.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Federal revenue – increased to reflect back payments of impact aid money.
- Instruction – increased due to 5.0% salary increase.
- Instructional-related services – increased due to spending of new block grant money.

While the District's final budget for the general fund anticipated revenues would fall short of expenditures by about \$3.4 million, the actual results for the year show that revenues actually exceeded expenditures by roughly \$0.7 million. Actual revenues were \$1.2 million more than anticipated, and expenditures were \$3.0 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2008 that will be carried over into the 2008-09 budget.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

---

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2007-08 the District had invested over \$4.7 million in new capital assets. (More detailed information about capital assets is found in Note 6 to the financial statements.)

**Table A-3 Capital Assets at Year-End, net of depreciation**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2008	2007	
Land	\$ 4.0	\$ 4.0	\$ 0.0
Site improvements	5.2	5.5	(0.3)
Buildings and improvements	61.7	55.9	5.8
Machinery and equipment	0.9	1.1	(0.2)
Work in progress	1.2	3.9	(2.7)
Total	<u>\$ 73.0</u>	<u>\$ 70.4</u>	<u>\$ 2.6</u>

**Long-Term Debt**

At year-end the District had \$33.1 million in general obligation bonds, capital leases and employment benefits – a decrease of \$0.9 million from the prior year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

**Table A-4 Outstanding Long-Term Debt at Year-End**

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2008	2007	
General obligation bonds	\$ 31.5	\$ 31.9	\$ (0.4)
Capital leases	1.3	1.5	(0.2)
Compensated absences	0.2	0.2	(0.0)
Early retirement incentive	-	0.4	(0.4)
Total	<u>\$ 33.1</u>	<u>\$ 34.0</u>	<u>\$ (0.9)</u>

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Year Ended June 30, 2008**

---

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes \$24.0 billion of "solutions", including \$10.3 billion in spending cuts, \$9.6 billion in revenue-related provisions, and \$4.0 billion in borrowing.

The final budget agreement includes:

- A total of \$10.3 billion in spending reductions, including \$3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth.
- A one-time shift of \$350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides \$58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by \$3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Do not provide \$150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.
- Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of \$550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Management's Discussion and Analysis (Unaudited)  
Year Ended June 30, 2008

---

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (760) 723-7026.

## *Financial Section*

---

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2008**

---

<b>Assets</b>	<b>Governmental Activities</b>
Cash	\$ 13,576,335
Accounts receivable	3,878,207
Stores inventories	19,219
Prepaid expenditures	495,904
Total current assets	<u>17,969,665</u>
Capital assets:	
Land	4,044,267
Improvement of sites	10,406,555
Buildings and improvements	75,099,765
Machinery and equipment	4,953,274
Work in progress	1,249,293
Less accumulated depreciation	(22,759,037)
Total noncurrent assets	<u>72,994,117</u>
Total assets	<u>\$ 90,963,782</u>
<b>Liabilities</b>	
Accounts payable	1,970,348
Deferred revenues	310,013
Long-term liabilities:	
Due within one year	943,152
Due after one year	32,195,164
Total liabilities	<u>35,418,677</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	40,040,868
Restricted for:	
Capital projects	212,654
Debt service	1,953,540
Categorical programs	1,652,129
Unrestricted	<u>11,685,914</u>
Total net assets	<u>\$ 55,545,105</u>

The notes to the financial statements are an integral part of this statement.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes
					in Net Assets
Governmental Activities					
Instruction	\$ 32,523,204	\$ 88,305	\$ 6,125,812	\$ 97,077	\$ (26,212,010)
Instruction-related services					
Supervision of instruction	1,232,116	39,753	758,413	-	(433,950)
Instructional library, media and technology	430,117	-	334,901	-	(95,216)
School site administration	2,503,452	-	272,083	-	(2,231,369)
Pupil Services:					
Home-to-school transportation	2,401,356	-	920,976	-	(1,480,380)
Food services	1,719,964	510,423	1,311,350	-	101,809
All other pupil services	2,474,481	-	501,960	-	(1,972,521)
General Administration:					
Data processing	680,795	-	-	-	(680,795)
All other general administration	2,916,863	31,652	312,622	-	(2,572,589)
Plant services	4,961,026	3,716	281,077	-	(4,676,233)
Community services	-	652,255	81,426	-	733,681
Enterprise activities	722,051	-	-	-	(722,051)
Interest on long-term debt	1,256,572	-	-	-	(1,256,572)
Depreciation (unallocated)	2,150,366	-	-	-	(2,150,366)
Other outgo	501,396	-	-	-	(501,396)
Total governmental activities	\$ 56,473,759	\$ 1,326,104	\$ 10,900,620	\$ 97,077	\$ (44,149,958)
General Revenues:					
Property taxes					17,053,245
Federal and state aid not restricted to specific purposes					25,554,912
Interest and investment earnings					651,202
Miscellaneous					374,284
Total general revenue					43,633,643
Change in net assets					(516,315)
Net assets - June 30, 2007					56,061,420
Net assets - June 30, 2008					\$ 55,545,105

The notes to the financial statements are an integral part of this statement.



**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Balance Sheet – Governmental Funds**  
**June 30, 2008**

	General Fund	Special Reserve for Other Than Capital Outlay	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 6,823,343	\$ 1,798,953	\$ 266,120	\$ 3,927,919	\$ 12,816,335
Accounts receivable	3,522,340	15,517	66,752	266,958	3,871,567
Due from other funds	101,251	4,554,979	-	463,447	5,119,677
Stores inventories	-	-	-	19,219	19,219
Prepaid expenditures	484,853	-	-	11,051	495,904
Total Assets	<u>\$ 10,931,787</u>	<u>\$ 6,369,449</u>	<u>\$ 332,872</u>	<u>\$ 4,688,594</u>	<u>\$ 22,322,702</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 881,252	\$ -	\$ -	\$ 475,573	\$ 1,356,825
Due to other funds	4,671,964	-	332,872	114,841	5,119,677
Deferred revenues	295,013	-	-	15,000	310,013
Total Liabilities	<u>5,848,229</u>	<u>-</u>	<u>332,872</u>	<u>605,414</u>	<u>6,786,515</u>
<b>Fund Balances</b>					
Reserved for:					
Stores inventories	-	-	-	19,219	19,219
Revolving cash	5,000	-	-	-	5,000
Legally restricted balance	1,652,129	-	-	-	1,652,129
Prepaid expenditures	484,853	-	-	11,051	495,904
Debt service	-	-	-	1,953,540	1,953,540
Unreserved, reported in:					
General fund	2,941,576	-	-	-	2,941,576
Special revenue funds	-	6,369,449	-	1,351,905	7,721,354
Capital projects funds	-	-	-	747,465	747,465
Total Fund Balances	<u>5,083,558</u>	<u>6,369,449</u>	<u>-</u>	<u>4,083,180</u>	<u>15,536,187</u>
Total Liabilities and Fund Balances	<u>\$ 10,931,787</u>	<u>\$ 6,369,449</u>	<u>\$ 332,872</u>	<u>\$ 4,688,594</u>	<u>\$ 22,322,702</u>

The notes to the financial statements are an integral part of this statement.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**June 30, 2008**

---

Total fund balances - governmental funds \$ 15,536,187

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital Assets at historical cost:	95,753,154	
Accumulated Depreciation	(22,759,037)	
	Net:	72,994,117

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 629,416

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was: (476,299)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statements of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to government-wide statements, consist of:

General obligation bonds payable	31,570,338	
Compensated absences	185,067	
Capital leases payable	1,382,911	
		(33,138,316)
<b>Total net assets - governmental activities</b>		<b>\$ 55,545,105</b>

The notes to the financial statements are an integral part of this statement.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances –**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	General Fund	Special Reserve for Other Than Capital Outlay	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
General Revenues:					
Property taxes	\$ 15,293,898	\$ -	\$ -	\$ 1,759,347	\$ 17,053,245
Federal and state aid not restricted to specific purpose	25,554,912	-	-	-	25,554,912
Interest and investment earnings	416,170	96,994	-	138,038	651,202
Miscellaneous	119,862	-	-	254,422	374,284
Program Revenues:					
Charges for services	788,801	-	-	537,303	1,326,104
Operating grants and contributions	9,282,045	-	-	1,618,575	10,900,620
Capital grants and contributions	-	-	97,077	-	97,077
Total revenues	51,455,688	96,994	97,077	4,307,685	55,957,444
<b>Expenditures</b>					
Instruction	32,709,023	-	-	-	32,709,023
Instruction-related services					
Supervision of instruction	1,232,116	-	-	-	1,232,116
Instructional library, media and technology	430,117	-	-	-	430,117
School site administration	2,503,452	-	-	-	2,503,452
Pupil Services:					
Home-to-school transportation	2,305,596	-	-	115,431	2,421,027
Food services	-	-	-	1,752,300	1,752,300
All other pupil services	2,474,481	-	-	-	2,474,481
General Administration:					
Data processing	680,795	-	-	-	680,795
All other general administration	2,840,974	-	-	75,302	2,916,276
Plant services	4,782,909	-	41,738	136,379	4,961,026
Facility acquisition and construction	21,499	-	3,057,467	1,570,094	4,649,060
Community Services	722,051	-	-	-	722,051
Debt Service:					
Principal	-	-	-	998,706	998,706
Interest	-	-	-	1,261,353	1,261,353
Total expenditures	50,703,013	-	3,099,205	5,909,565	59,711,783
Excess (Deficiency) of Revenues Over (Under) Expenditures	752,675	96,994	(3,002,128)	(1,601,880)	(3,754,339)
<b>Other Financing Sources (Uses)</b>					
Interfund transfers out	(4,906,166)	(3,892,916)	(1,692,912)	(688,614)	(11,180,608)
Interfund transfers in	4,142,916	4,554,979	250,000	2,051,463	10,999,358
Total Other Financing Sources and Uses	(763,250)	662,063	(1,442,912)	1,362,849	(181,250)
Net Change in Fund Balances	(10,575)	759,057	(4,445,040)	(239,031)	(3,935,589)
Fund Balances, June 30, 2007	5,094,133	5,610,392	4,445,040	4,322,211	19,471,776
Fund Balances, June 30, 2008	\$ 5,083,558	\$ 6,369,449	\$ -	\$ 4,083,180	\$ 15,536,187

The notes to the financial statements are an integral part of this statement.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2008**

---

Total net change in fund balances - governmental funds \$ (3,935,589)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital Outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	4,710,887	
Depreciation expense	(2,150,366)	
Net:		2,560,521

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as a reduction of liabilities.

Expenditures for repayment of the principal portion of long term debt were: 998,706

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(320,146)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

4,781

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned.

The difference between compensated absences paid and compensated absences earned was: 6,561

In government funds, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives over time, and structured legal settlements. This year, expenses incurred for such obligations were:

176,000

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental on the statement of activities. The net decrease in internal service funds was:

(7,149)

Change in net assets of governmental activities \$ (516,315)

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Statement of Fund Net Assets – Proprietary Funds  
June 30, 2008

---

	Governmental Activities
	Internal
	Service Fund
ASSETS	
Cash	\$ 760,000
Accounts receivable	6,640
	<hr/>
Total assets	766,640
	<hr/>
LIABILITIES	
Estimated liability for IBNR	137,224
	<hr/>
Total liabilities	137,224
	<hr/>
NET ASSETS	
Unrestricted	\$ 629,416
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Proprietary Fund  
For the Year Ended June 30, 2008

---

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Self-insurance premiums	\$ 729,251
Total operating revenues	729,251
OPERATING EXPENSES	
Other services and operating expenses	769,483
Total operating expenses	769,483
Operating income (loss)	(40,232)
NON-OPERATING REVENUES	
Interest	33,083
Change in net assets	(7,149)
Net Assets - June 30, 2007	636,565
Net Assets - June 30, 2008	\$ 629,416

The notes to the financial statements are an integral part of this statement.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ended June 30, 2008**

---

	Governmental Activities
	Internal Service Fund
<b>Cash Flows from Operating Activities</b>	
Cash received from self-insurance premiums	\$ 810,904
Cash paid for operating expenses	(809,393)
Net Cash Provided (Used) by Operating Activities	1,511
<b>Cash Flows from Investing Activities</b>	
Interest	35,980
Net Increase (Decrease) in Cash	37,491
Cash, June 30, 2007	722,509
Cash, June 30, 2008	\$ 760,000
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ (40,232)
<b>Changes in Operating Assets and Liabilities</b>	
Decrease in accounts payable	(39,910)
Decrease in accounts receivable	81,653
Net Cash Provided (Used) by Operating Activities	\$ 1,511

The notes to the financial statements are an integral part of this statement.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Statement of Net Assets – Fiduciary Funds  
For the Year Ended June 30, 2008

---

	Trust Fund	Agency Funds		
	Retiree Benefits Fund	IRC 125 Account	Student Body Funds	Total
<b>ASSETS</b>				
Cash	\$ 13,219	\$ 2,179	\$ 39,651	\$ 55,049
Accounts receivable	114	-	-	114
Total assets	<u>\$ 13,333</u>	<u>\$ 2,179</u>	<u>\$ 39,651</u>	<u>\$ 55,163</u>
<b>LIABILITIES</b>				
Due to employee groups	\$ -	\$ 2,179	\$ -	\$ 2,179
Due to student groups	-	-	39,651	39,651
Total liabilities	<u>\$ -</u>	<u>\$ 2,179</u>	<u>\$ 39,651</u>	<u>\$ 41,830</u>
<b>NET ASSETS</b>				
Reserved	<u>\$ 13,333</u>			<u>\$ 13,333</u>

The notes to the financial statements are an integral part of this statement.



FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2008

---

	Trust Fund Retiree Benefits Fund
<b>ADDITIONS</b>	
Interest	\$ 3,051
Interfund transfers in	181,250
	<hr/>
Total additions	184,301
	<hr/>
<b>DEDUCTIONS</b>	
Other services & operating expenses	188,000
	<hr/>
Change in net assets	(3,699)
	<hr/>
Net assets, June 30, 2007	17,032
	<hr/>
Net assets, June 30, 2008	\$ 13,333
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

#### A. Accounting Policies

The Fallbrook Union Elementary School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

#### B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

#### C. Basis of Presentation

##### *Government-wide Financial Statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

*Government-wide Financial Statements (continued):*

prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

*Fund Financial Statements*

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues,

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### C. Basis of Presentation (continued)

##### *Fund Financial Statements (continued)*

Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flows needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for the internal service fund include the costs of claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

#### D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

##### *Revenues – exchange and non-exchange transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essential equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectable within the current period or within 60 days after year-end liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

*Revenues – exchange and non-exchange transaction (continued):*

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

*Deferred revenue:*

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

*Expenses/expenditures:*

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary, and fiduciary funds, as follows:

##### *Major Governmental Funds:*

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Special Reserve Fund for Other than Capital Outlay* is used to account for reserves set aside for general operating purposes.

The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.

##### *Non-Major Governmental Funds:*

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

1. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
2. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
3. The *Pupil Transportation Equipment Fund* is used to account separately for revenues for the acquisition, rehabilitation, or replacement of equipment used to transport students.
4. The *Special Reserve Fund for Postemployment Benefits* is used to account for funds earmarked for the future cost of postemployment benefits that have not been contributed irrevocably to a separate trust.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

*Capital Projects Funds* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three non-major capital projects fund:

1. The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
3. The *Special Reserve for Capital Outlay Fund* is used to account for resources set aside for various capital outlay projects.

*Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one non-major debt service fund:

1. The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

*Proprietary Funds:*

*Internal Service Funds* are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund:

1. The *Self Insurance Fund* is used to account for resources committed to the District's self-insured dental insurance program.

*Fiduciary Funds:*

*Agency Funds* are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The District also maintains a Retiree Benefits Fund to set aside funds for future payments on retiree health benefits, and an IRC 125 account for collecting voluntary, tax exempt employee contributions until such time that the employee makes a claim for their funds through an administrator.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### F. Budgets and Budgetary Accounting (continued)

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The final adopted and revised budgets are presented for the General Fund and Special Reserve Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

#### G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

#### H. Assets, Liabilities, and Equity

##### 1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

##### 2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned in the Cafeteria Fund. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

##### 3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.



FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### H. Assets, Liabilities, and Equity (continued)

##### 6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

##### 7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

##### 8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

#### I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Self-Insurance Internal Service Fund

The District is self-insured for dental insurance claims. The General Fund is charged premiums by the Self-Insurance Fund, which is accounted for as an Internal Service Fund. On the government-wide financial statements, the Internal Service Fund activity is eliminated to avoid doubling of revenues and expenditures.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

L. New GASB Pronouncements

During the 2007-08 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceeds received as a lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50 – *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Activities	Fiduciary Funds
Cash:		
Cash in county treasury	\$ 13,571,335	\$ 13,219
Cash in revolving fund	5,000	-
Cash in banks	-	41,830
Total deposits and investments	<u>\$ 13,576,335</u>	<u>\$ 55,049</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

## FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2008

---

#### NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

*Cash in County Treasury* – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

#### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$13,631,421 and an amortized book value of \$13,584,554. The average weighted maturity for this pool is 427 days.

#### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Diego County Investment Pool is rated AAAsf/S1 by Moody's Investor Service.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, none of the District's bank balance of \$56,343 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 2 – DEPOSITS AND INVESTMENTS (continued)**

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	Special Reserve for other than Capital Outlay	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds	Self Insurance Fund	Fiduciary Trust Fund
Federal Government:							
Categorical aid programs	\$ 551,538	\$ -	\$ -	\$ 214,935	\$ 766,473	\$ -	\$ -
State Government:							
Revenue Limit	2,054,958	-	-	-	2,054,958	-	-
Lottery	351,313	-	-	-	351,313	-	-
Special Education	100,254	-	-	-	100,254	-	-
Other State	264,539	-	64,483	28,000	357,022	-	-
Local:							
Other	60,739	-	-	-	60,739	-	-
Interest	94,009	15,517	2,269	20,544	132,339	6,640	114
Miscellaneous	44,990	-	-	3,479	48,469	-	-
Totals	<u>\$ 3,522,340</u>	<u>\$ 15,517</u>	<u>\$ 66,752</u>	<u>\$ 266,958</u>	<u>\$ 3,871,567</u>	<u>\$ 6,640</u>	<u>\$ 114</u>

**NOTE 4 – INTERFUND TRANSACTIONS**

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

NOTE 4 – INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due from Other Funds			
	General Fund	Special Reserve Fund for Other Than Capital Outlay	Other Governmental Funds	Total
General Fund	\$ -	\$ 4,554,979	\$ 116,985	\$ 4,671,964
County School Facilities Fund	-	-	332,872	332,872
Other Governmental Funds	101,251	-	13,590	114,841
Total	\$ 101,251	\$ 4,554,979	\$ 463,447	\$ 5,119,677

General Fund due to the Cafeteria Fund for catering revenues	\$ 16,985
General Fund due to the Special Reserve Fund for Other Than Capital Outlay Fund for 2006-07 carryovers	4,554,979
General Fund due to the Building Fund for reimbursement of expenses	100,000
Cafeteria Fund due to the General Fund for direct support / indirect costs	76,251
Cafeteria Fund due to the Capital Facilities Fund for building lease	6,226
Building Fund due to the General Fund for reimbursement of expenses	25,000
County School Facilities Fund due to the Building Fund for reimbursement of expenses	332,872
Special Reserve Fund for Capital Outlay Projects due to the Building Fund for reimbursement of expenses	7,364
	<u>\$ 5,119,677</u>

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the 2007-08 fiscal year are as follows:

	Interfund Transfers In						
	General Fund	Special Reserve Fund for Other Than Capital Outlay	County School Facilities Fund	Other Governmental Funds	Total Governmental Funds	Fiduciary Funds	Total
General Fund	-	\$ 4,554,979	-	\$ 351,187	\$ 4,906,166	-	\$ 4,906,166
Special Reserve Fund for Other Than Capital Outlay	3,642,916	-	250,000	-	3,892,916	-	3,892,916
County School Facilities Fund	-	-	-	1,692,912	1,692,912	-	1,692,912
Other Governmental Funds	500,000	-	-	7,364	507,364	181,250	688,614
Total	\$ 4,142,916	\$ 4,554,979	\$ 250,000	\$ 2,051,463	\$ 10,999,358	\$ 181,250	\$ 11,180,608

General Fund transfer to Deferred Maintenance Fund for state match	\$ 251,187
General Fund transfer to Special Reserve Fund for Other Than Capital Outlay for site & department budget carryover amounts	4,554,979
General Fund transfer to Building Fund for completions of approved construction projects	100,000
Special Reserve Fund for Other Than Capital Outlay transfer to General Fund for site & department budget carryover amounts	3,642,916
Special Reserve Fund for Other Than Capital Outlay transfer to County School Facilities Fund for completion of approved construction projects	250,000
Special Reserve Fund for Postemployment Benefits transfer to General Fund for collective bargaining agreements	500,000
Special Reserve Fund for Postemployment Benefits transfer to Retiree Benefit Fund for payment of retirement incentive	181,250
County Schools Facilities Fund transfer to Building Fund for completion of approved construction projects	1,692,912
Special Reserve Fund for Capital Outlay transfer to Building Fund for completion of approved construction projects	7,364
	<u>\$ 11,180,608</u>

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

### NOTE 5 – FUND BALANCES

The board has designated the following balances in the Special Reserve Fund (for Other than Capital Outlay):

PSU Contingency	\$	200,000
SOS Paxton Patterson Lab		75,000
Textbooks		150,000
Computer replacements		150,000
Site Carryovers		961,795
Mandated Cost Contingency		382,654
Impact Aid Contingency		700,000
08-09 Impact Aid		1,750,000
09/10 Deficit		1,000,000
08/09 Governors Budget Reduction		1,000,000
Total	\$	<u>6,369,449</u>

### NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 is shown below:

	Balance, July 1, 2007	Additions	Retirements	Balance, June 30, 2008
Capital assets not being depreciated:				
Land	\$ 4,044,267	\$ -	\$ -	\$ 4,044,267
Work in progress	3,920,894	1,249,293	3,920,894	1,249,293
Total capital assets not being depreciated	<u>7,965,161</u>	<u>1,249,293</u>	<u>3,920,894</u>	<u>5,293,560</u>
Capital assets being depreciated:				
Improvement of sites	10,320,361	86,194	-	10,406,555
Buildings	67,870,740	7,229,025	-	75,099,765
Equipment	4,886,005	67,269	-	4,953,274
Total capital assets being depreciated	<u>83,077,106</u>	<u>7,382,488</u>	<u>-</u>	<u>90,459,594</u>
Accumulated depreciation for:				
Improvement of sites	(4,789,467)	(462,689)	-	(5,252,156)
Buildings	(11,995,640)	(1,451,899)	-	(13,447,539)
Equipment	(3,823,564)	(235,778)	-	(4,059,342)
Total accumulated depreciation	<u>(20,608,671)</u>	<u>(2,150,366)</u>	<u>-</u>	<u>(22,759,037)</u>
Total capital assets being depreciated, net	<u>62,468,435</u>	<u>5,232,122</u>	<u>-</u>	<u>67,700,557</u>
Governmental activity capital assets, net	<u>\$ 70,433,596</u>	<u>\$ 6,481,415</u>	<u>\$ 3,920,894</u>	<u>\$ 72,994,117</u>



FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below.

	Balance, June 30, 2007	Additions	Deductions	Balance, June 30, 2008	Amount Due Within One Year
General obligation bonds principal	\$ 31,019,476	\$ -	\$ 565,000	\$ 30,454,476	\$ 625,000
Accreted interest	795,716	320,146	-	1,115,862	-
Capital leases	1,816,617	-	433,706	1,382,911	318,152
Compensated absences	191,628	-	6,561	185,067	-
Early retirement incentive	176,000	-	176,000	-	-
Totals	<u>\$ 33,999,437</u>	<u>\$ 320,146</u>	<u>\$ 1,181,267</u>	<u>\$ 33,138,316</u>	<u>\$ 943,152</u>

A. General Obligation Bonds

The District received authorization to issue general obligation bonds at an election held on November 5, 2002, at which more than 55 percent of the voters authorized the issuance and sale of not to exceed \$32 million principal amount of general obligation bonds. The bonds are general obligations of the District, and the county is obligated to annually levy ad valorem taxes for the payment of, and the interest on, the principal of the bonds. Bond proceeds were used to fund the construction, rehabilitation, and repair of District facilities.

A summary of outstanding general obligation bonds issued is presented below:

Series	Interest Rate	Date of Issue	Maturity Date	Amount of Original Issue	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008
2003A	2.0-5.48%	2/27/2003	8/1/2028	\$ 22,505,371	\$ 21,535,371	\$ -	\$ 525,000	\$ 21,010,371
2003B	2.0-5.74%	10/17/2003	8/1/2028	4,074,472	4,074,472	-	15,000	4,059,472
2004	2.5-5.47%	10/28/2004	8/1/2029	3,157,929	3,147,929	-	15,000	3,132,929
2005	3.0-4.92%	8/25/2005	8/1/2030	2,261,704	2,261,704	-	10,000	2,251,704
				<u>\$ 31,999,476</u>	<u>\$ 31,019,476</u>	<u>\$ -</u>	<u>\$ 565,000</u>	<u>\$ 30,454,476</u>

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds payable, outstanding as of June 30, 2008, are as follows:

Fiscal Year	Principal	Interest	Total
2008-2009	\$ 625,000	\$ 1,135,265	\$ 1,760,265
2009-2010	690,000	1,117,168	1,807,168
2010-2011	765,000	1,094,634	1,859,634
2011-2012	840,000	1,067,349	1,907,349
2012-2013	935,000	1,034,199	1,969,199
2013-2018	6,295,000	4,512,401	10,807,401
2018-2023	9,362,065	3,467,274	12,829,339
2023-2028	8,358,330	7,176,246	15,534,576
2028-2031	2,584,081	5,511,572	8,095,653
Total	<u>\$ 30,454,476</u>	<u>\$ 26,116,108</u>	<u>\$ 56,570,584</u>

B. Capital Leases

The District leases equipment valued at \$4,293,653 under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal Year	Lease Payment
2008-2009	\$ 374,153
2009-2010	374,153
2010-2011	317,633
2011-2012	213,000
2012-2013	135,016
2013-2014	135,017
Total	1,548,972
Less Amount Representing Interest	(166,061)
Present Value of Net Minimum Lease Payments	<u>\$ 1,382,911</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2008**

---

**NOTE 8 – JOINT VENTURES**

The Fallbrook Union Elementary School District participates in a joint venture under a joint powers agreement (JPA) with the San Diego County Schools Risk Management JPA (RM). The relationship between the Fallbrook Union Elementary School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA provides for workers' compensation and property and liability insurance for member districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed audited financial information for the year ended June 30, 2008 is as follows:

	RM
Total Assets	\$ 91,261,574
Total Liabilities	(44,556,823)
Fund Equity	46,704,751
Total Revenue	53,981,705
Total Expenditures	(40,909,826)
Net Income	\$ 13,021,879

**NOTE 9 – EXCESS OVER APPROPRIATIONS**

There were no excess over appropriations in any major objects in any major funds.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 10 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

As of June 30, 2008, the District had commitments with respect to unfinished capital projects of approximately \$1.2 million.

C. Other Postemployment Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on the length of service and other factors. During the year ended June 30, 2008, expenditures of \$504,515 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis.

In accordance with AB 3141, the District contracted for an actuarial calculation of the plan for retirees age 65 and older. The study dated October, 2004 disclosed the following information regarding the future liability:

	Total Retiree Liability	Over Age 65 Liability Only
Present value of benefits	\$ 6,567,446	\$ 2,784,244
Past service liability	5,053,463	2,177,974
Net periodic expense	823,492	108,899

# FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2008

---

### NOTE 11 – RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2008, the District participated in the San Diego County Schools Risk Management public entity risk pool for property and liability insurance coverage, with excess coverage provided by Schools Excess Liability Fund (SELF). The District maintains a \$100,000 self-insured retention (S.I.R.) amount for property damage and a \$250,000 S.I.R. for general liability claims. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2007, the District participated in the San Diego County Schools Risk Management public entity risk pool for workers compensation, with excess coverage provided by the SELF public entity risk pool. The District maintains a \$100,000 S.I.R. account.

#### Employee Medical Benefits

The District has contracted with Voluntary Employee Benefits Association (VEBA) to provide employee health and welfare benefits, and is self-insured for dental and vision benefits.

#### Claims Liability

The District records an estimated liability for dental and vision claims. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

#### Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported claims, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2007 to June 30, 2008:

	Dental and Vision Claims
Liability Balance, June 30, 2007	\$ 162,270
Claims and changes in estimates	744,437
Claims payments	(769,483)
Liability Balance, June 30, 2008	<u>\$ 137,224</u>
Assets available to pay claims at June 30, 2008	<u>\$ 766,640</u>

## FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2008

---

#### NOTE 12 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

##### Plan Description and Provisions

##### **Public Employees' Retirement System (PERS)**

##### Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

##### Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$1,061,465, \$974,682, and \$887,034, respectively, which represents 100% of the required contributions for each fiscal year.

##### **State Teachers' Retirement System (STRS)**

##### Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2008

---

NOTE 12 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$1,975,334, \$1,926,748, and \$1,834,159, respectively, and equal 100% of the required contributions for each year.

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$1.6 million to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

NOTE 13 - GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Fallbrook Union Elementary School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
<b>Revenues</b>				
Revenue Limit Sources	\$ 30,217,369	\$ 30,259,584	\$ 30,699,619	\$ 440,035
Federal	6,713,753	8,622,225	9,260,624	638,399
Other State	7,452,933	7,521,396	7,746,856	225,460
Other Local	3,666,944	3,841,341	3,748,589	(92,752)
Total Revenues	48,050,999	50,244,546	51,455,688	1,211,142
<b>Expenditures</b>				
Certificated Salaries	23,687,536	24,275,085	24,158,077	117,008
Classified Salaries	7,320,497	8,184,952	8,184,951	1
Employee Benefits	11,073,946	11,246,300	11,010,704	235,596
Books and Supplies	2,746,728	5,410,713	3,135,170	2,275,543
Services and Other Operating Expenditures	441,933	4,447,006	4,161,760	285,246
Capital Outlay	5,000	127,687	127,653	34
Direct Support/Indirect Costs	(85,000)	(11,840)	(75,302)	63,462
Total Expenditures	45,190,640	53,679,903	50,703,013	2,976,890
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,860,359	(3,435,357)	752,675	4,188,032
<b>Other Financing Sources and Uses</b>				
Interfund Transfers In	1,750,000	4,142,916	4,142,916	-
Interfund Transfers Out	(1,995,000)	(4,906,166)	(4,906,166)	-
Total Other Financing Sources and Uses	(245,000)	(763,250)	(763,250)	-
Net Change in Fund Balance	2,615,359	(4,198,607)	(10,575)	4,188,032
Fund Balances, July 1, 2007	5,094,133	5,094,133	5,094,133	-
Fund Balances, June 30, 2008	\$ 7,709,492	\$ 895,526	\$ 5,083,558	\$ 4,188,032



FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
 Budgetary Comparison Schedule - Special Reserve Fund  
 Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Other Local	\$ -	\$ 70,000	\$ 96,994	\$ 26,994
Total Revenues	-	70,000	96,994	26,994
Other Financing Sources and Uses				
Interfund Transfers In	1,750,000	2,316,834	4,554,979	2,238,145
Interfund Transfers Out	(1,750,000)	(3,892,916)	(3,892,916)	-
Total Other Financing Sources and Uses	-	(1,576,082)	662,063	2,238,145
Net Change in Fund Balance	-	(1,506,082)	759,057	2,265,139
Fund Balances, July 1, 2007	5,610,392	5,610,392	5,610,392	-
Fund Balances, June 30, 2008	\$ 5,610,392	\$ 4,104,310	\$ 6,369,449	\$ 2,265,139

## *Supplementary Information Section*

---

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Local Educational Agency Organization Structure**  
**June 30, 2008**

---

The Fallbrook Union Elementary School District was originally established in 1876. The District is located about 50 miles north of San Diego in Northern San Diego County. There were no changes in the boundaries of the District during the current year. The District is currently operating five elementary schools, two K-8 schools and one junior high school, as well as one independent study school.

GOVERNING BOARD		
Member	Office	Term Expires
Maurice F. Bernier, Ed.D.	President	November, 2010
Anne Renshaw	Vice President	November, 2008
Lisa Masten	Clerk	November, 2008
Patty de Jong	Member	November, 2010
Patrick Rusnell	Member	November, 2010

DISTRICT ADMINISTRATORS

Janice Schultz, Ed.D.,  
*Superintendent*

Brian Jacobs, Ed.D.,  
*Assistant Superintendent, Educational Services*

Raymond Proctor,  
*Assistant Superintendent, Business Services*

James C. Whitlock,  
*Assistant Superintendent, Employee-Employer Relations*

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Schedule of Average Daily Attendance  
Year Ended June 30, 2008

---

	Second Period Report	Annual Report
Regular Elementary		
Kindergarten	659	665
Grades 1 thru 3	1,766	1,768
Grades 4 thru 6	1,680	1,682
Grades 7 thru 8	1,053	1,052
Special Education	108	111
Home and Hospital	4	4
Community Day School	6	8
	<hr/>	<hr/>
Total Average Daily Attendance	<u>5,276</u>	<u>5,290</u>

<u>Supplemental Instruction</u>	<u>Hours of Attendance</u>
Elementary	57,981

See accompanying note to supplementary information.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Schedule of Instructional Time  
June 30, 2008

---

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-2008 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	33,630	36,000	48,145	180	Complied
Grade 1	48,675	50,400	50,740	180	Complied
Grade 2	48,675	50,400	50,740	180	Complied
Grade 3	48,675	50,400	50,740	180	Complied
Grade 4	49,560	54,000	54,130	180	Complied
Grade 5	49,560	54,000	54,130	180	Complied
Grade 6	49,560	54,000	54,130	180	Complied
Grade 7	59,826	54,000	63,176	180	Complied
Grade 8	59,826	54,000	63,176	180	Complied

See accompanying note to supplementary information.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Financial Trends and Analysis**  
**Year Ended June 30, 2008**

General Fund	(Budget) <sup>2</sup> 2009	2008	2007	2006
Revenues and other financing sources	\$ 49,237,326	\$ 55,598,604	\$ 53,830,781	\$ 51,906,097
Expenditures	48,776,895	50,703,013	48,635,906	45,577,874
Other uses and transfers out	1,750,000	4,906,166	4,037,916	6,005,854
Total Outgo	50,526,895	55,609,179	52,673,822	51,583,728
Change in fund balance (deficit)	(1,289,569)	(10,575)	1,156,959	322,369
Ending fund balance	\$ 3,793,989	\$ 5,083,558	\$ 5,094,133	\$ 3,937,174
Available Reserves <sup>1</sup>	\$ 2,602,584	\$ 2,941,576	\$ 2,030,403	\$ 2,022,197
Available Reserves as a percentage of Total Outgo	5.2%	5.3%	3.9%	3.9%
Total Long-Term Debt	\$ 32,195,164	\$ 33,138,316	\$ 33,999,437	\$ 33,994,437
Average Daily Attendance at P-2	5,294	5,276	5,412	5,555

The General Fund balance has increased by \$2,571,508 over the past two years. The fiscal year 2008-09 adopted budget projects a decrease of \$1,289,569. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

Total long-term debt has decreased by \$856,121 over the last two years.

Average daily attendance has decreased by 279 over the past two years. A gain of 18 ADA is anticipated during fiscal year 2008-09.

<sup>1</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund and Special Reserve for Other Than Capital Outlay Fund.

<sup>2</sup> As of September 15, 2008.

See accompanying note to supplementary information.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
School Breakfast Program	10.553	13526	\$ 123,217
National School Lunch	10.555	13523	1,134,525
Total U.S. Department of Agriculture			<u>1,257,742</u>
U.S. Department of Education:			
Impact Aid	84.041	N/A	6,632,778
Passed through California Dept. of Education (CDE):			
No Child Left Behind (NCLB):			
Title I - Part A, Grants to Local Agencies	84.010	13797	1,219,167
Title II - Teacher Quality	84.367	14341	261,908
Title II - Part A, Administrator Training	84.367	14334	627
Title II, Part D, Enhancing Education Through Technology	84.318	14334	7,398
Title III - Limited English Proficient	84.365	10084	137,051
Title III - Immigrant Education Program	84.365	14346	10,948
Title IV - Safe and Drug Free Schools	84.186	14347	27,163
Individuals with Disabilities Education Act (IDEA):			
Local Assistance	84.027	13379	757,415
Preschool Staff Development	84.173A	13431	407
Federal Preschool	84.173	13430	52,512
Local Preschool	84.027A	13682	89,713
Passed through San Diego County Office of Education:			
Mentoring Program	N/A	24856	29,160
Total U.S. Department of Education			<u>9,226,247</u>
U.S. Department of Health & Human Services:			
Medi-Cal Administrative Activities	93.778	10013	33,597
Total U.S. Department of Health & Human Services			<u>33,597</u>
U.S. Department of Homeland Security:			
FEMA Public Assistance Grants	97.036	10014	780
Total U.S. Department of Homeland Security			<u>780</u>
Total Expenditures of Federal Awards			<u>\$ 10,518,366</u>

See accompanying note to the supplementary information.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Reconciliation of Annual Financial and Budget Report With  
Audited Financial Statements  
Year Ended June 30, 2008

---

	Long-Term Liabilities
June 30, 2008, annual financial and budget report total liabilities	<u>\$ 32,022,454</u>
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
Accreted interest on bonds not reported	<u>1,115,862</u>
Net adjustments and reclassifications	<u>1,115,862</u>
June 30, 2008, audited financial statement long-term liabilities	<u><u>\$ 33,138,316</u></u>

See accompanying note to the supplementary information.



FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Schedule of Excess Sick Leave  
Year Ended June 30, 2008

---

Section 19833.5 (a)(3) disclosure

Fallbrook Union Elementary School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Note to the Supplementary Information**  
**June 30, 2008**

---

**NOTE 1 – PURPOSE OF SCHEDULES**

**Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

**Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201.

**Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

**Schedule of Expenditures of Federal Awards**

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**Subrecipients**

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

**Schedule of Excess Sick Leave**

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

## *Other Independent Auditors' Reports*

---



A Professional  
Accountancy Corporation

Board of Trustees  
Fallbrook Union Elementary School District  
Fallbrook, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Fallbrook Union Elementary School District as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE  
PH: 951.698.8783  
FAX: 951.699.1064  
25090 Jefferson Avenue  
Murrieta, CA 92562

SAN DIEGO OFFICE  
PH: 619.270.8222  
FAX: 619.260.9085  
2727 Camino Del Rio S.  
Suite 219  
San Diego, CA 92108

**MEMBERS OF**

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE  
[www.nnwcpa.com](http://www.nnwcpa.com)

Licensed by the California  
Board of Accountancy

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fallbrook Union Elementary School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fallbrook Union Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fallbrook Union Elementary School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fallbrook Union Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the Findings and Questioned Costs section of this report.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.



Murrieta, California  
October 28, 2008



A Professional  
Accountancy Corporation

Board of Trustees  
Fallbrook Union Elementary School District  
Fallbrook, California

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the compliance of Fallbrook Union Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Fallbrook Union Elementary School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on Fallbrook Union Elementary School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fallbrook Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fallbrook Union Elementary School District's compliance with those requirements.

In our opinion, Fallbrook Union Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Jeff Nigro, CPA  
Elizabeth Nigro, CPA  
Christy White, CPA

MURRIETA OFFICE  
PH: 951.698.8783  
FAX: 951.699.1064  
25090 Jefferson Avenue  
Murrieta, CA 92562

SAN DIEGO OFFICE  
PH: 619.270.8222  
FAX: 619.260.9085  
2727 Camino Del Rio S.  
Suite 219  
San Diego, CA 92108

#### MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE  
[www.nnwcpa.com](http://www.nnwcpa.com)

Licensed by the California  
Board of Accountancy

### Internal Control Over Compliance

The management of Fallbrook Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

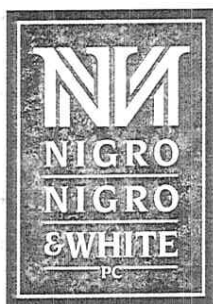
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Murrieta, California  
October 28, 2008



A Professional  
Accountancy Corporation

Board of Trustees  
Fallbrook Union Elementary School District  
Fallbrook, California

## AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Fallbrook Union Elementary School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Not Applicable

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

### MURRIETA OFFICE

PH: 951.698.8783

FAX: 951.699.1064

25090 Jefferson Avenue

Murrieta, CA 92562

### SAN DIEGO OFFICE

PH: 619.270.8222

FAX: 619.260.9085

2727 Camino Del Rio S.

Suite 219

San Diego, CA 92108

### MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

### WEBSITE

www.nnwcpa.com

Licensed by the California  
Board of Accountancy



Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	2	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not Applicable
Annual Instructional Minutes – Classroom Based	3	Not Applicable

Based on our audit, we found that, for the items tested, the Fallbrook Union Elementary School District complied with the state laws and regulations referred to above, except as noted in the findings and questioned costs section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Fallbrook Union Elementary School District had not complied with the state laws and regulations, except as noted in the findings and questioned costs section of this report.

This report is intended solely for the information and use of the Board, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Niza Nizam & White, PC*

Murrieta, California  
October 28, 2008

## *Findings and Questioned Costs Section*

---

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**Year Ended June 30, 2008**

---

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

*Federal Awards*

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	
CFDA Numbers	<u>Name of Federal Program or Cluster</u>
84.041	<u>Impact Aid</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

*State Awards*

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for state programs:	<u>Qualified</u>

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Schedule of Audit Findings and Questioned Costs  
Year Ended June 30, 2008

---

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2008-1 –Payroll (30000)

**Finding:** We found that the Payroll Department is responsible for both recording employees in the payroll system, as well as assigning the pay rates independent of Human Resources. We believe this presents an opportunity for fictitious employees to be set up in the payroll system.

**Recommendation:** Assign a member of management to approve and sign all Personnel Action requests relating to the hiring of a new employee following the initial input into the system or provide the Human Resources department with the ability to assign the new employee number, disallowing access of this function to the payroll department.

**District Response:** The District recently underwent a thorough study and analysis of our Human Resources Department. This project was conducted by the San Diego County Office of Education. Their recommendations, along with the implementation of an electronic personnel system will allow for proper internal controls and improved checks and balances.

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Schedule of Audit Findings and Questioned Costs  
Year Ended June 30, 2008

---

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings and questioned costs in 2007-08*

FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT  
Schedule of Audit Findings and Questioned Costs  
June 30, 2008

---

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2008-2: Teacher Credentials (71000)

**Criteria:** Any teacher that is assigned to teach a class in which more than 20 percent of the pupils were English learners must be authorized to instruct limited-English-proficient pupils pursuant to the provisions of Education Code Section 44253.3, 44253.4, or 44253.10.

**Condition:** Our sample of twenty teachers selected for testing included one that lacked the appropriate credentials to instruct LEP pupils.

**Cause:** The District found it difficult to get the older teachers to obtain the proper credentials for those classes.

**Effect:** The District is out of compliance with this requirement for 2007-08.

**Recommendation:** The District should provide the necessary training for those teachers to obtain the proper credentials. In the future, the District needs to ensure that only properly credentialed teachers are placed in a class with more than 20 percent English learners.

**District Response:** The District's Human Resource Department will work closely with school site administrators to ensure that only properly credentialed teachers are placed in a class with more than 20 percent English learners. The Human Resources Department has identified all teachers who are not authorized to instruct limited-English-proficient pupils and notified these individuals of the requirement to be properly credentialed.

**FALLBROOK UNION ELEMENTARY SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2008**

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-1 - Personnel Activity Reports</i>	<p>OMB Circular A-87 requires that employees funded solely from a single federal program must sign a semi-annual certification stating that he or she worked exclusively in that program during the certification period. Whenever an employee works in more than one categorical program or cost objective, the distribution of the employee's salary must be supported by a Personnel Activity Report (PAR).</p> <p>The District is using semi-annual certifications and PARs for employees working in IDEA in 2006-07; however, the form wasn't signed by one employee.</p>	50000	The District must implement semi-annual certifications and PARs for all employees working in <i>all</i> federal programs in the 2007-08 fiscal year.	Implemented
<i>Finding 2007-2 - School Accountability Report Card</i>	<p>Education Code Section 17002 requires that in order to provide that school facilities are reviewed to be clean, safe, and functional, the school must complete either a facility inspection and evaluation instrument or local evaluation instruments that include a specific set of criteria.</p> <p>Our sample of schools selected pursuant to Section 19817.1(b) showed none had a documented inspection meeting the requirements of Education Code Section 17002.</p>	72000	The District must implement a school facility evaluation program that meets the requirement of Education Code Section 17002. The program should be documented and retained for audit purposes.	Implemented

